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Recent developments in international taxation: Egypt

Introduction

As part of Egypt's economic and structural reform package agreed with the International Monetary Fund (IMF), the government, Parliament, and the Egyptian tax authority (ETA) have been actively engaged in easing of doing business in Egypt and in boosting investor certainty.

This brief aims to provide an overview of the tax law-related changes in the past 12 months as follows:

- launching a tax amnesty legislation package;
- legislative and ETA practical changes to domestic tax;
- introducing tax incentives for industrial and renewable energy businesses; and
- future tax changes.

Launching a tax amnesty legislation package

The highlight of the past 12 months has been the launch of an ambitious tax amnesty package ('TA Package'). The TA Package targeted three goals: (1) settling historical tax disputes and compliance irregularities; (2) easing tax compliance requirements and boosting taxpayers' certainty about ETA's practices; and (3) widening Egypt's tax base via simplified taxation of small and medium-sized enterprises. The TA Package consists of four pieces of legislation:

1. **Law No 160/2024:** renewing the mandate of tax dispute settlement committees to receive settlement requests until 30 June 2025. These are committees tasked with offering taxpayers an alternative route to amicably settle tax disputes without recourse to litigating within ETA, Ministry of Finance or in court. These committees are of higher technical knowledge and offer more room for taxpayers to present their cases and arguments.
2. **Law No 5/2025:** allowing taxpayers to: (1) file unsubmitted tax returns from FY2020; (2) submit amended tax returns from FY2020; (3) settle disputed ETA presumptive tax assessments for years prior to FY2020; (4) waive interest for late tax payments upon settling disputed ETA non-presumptive tax assessments for years prior to FY2020. Benefiting from the law is conditional on taxpayers filing of relevant requests prior to 12 August 2025.
3. **Law No 6/2025:** introducing a simplified tax regime for businesses with turnovers of less than EGP20m (approximately US\$400,000). Beneficiaries from the regime are subject to tax at a progressive fixed percentage varying between 0.4 per cent and 1.5 per cent depending on a business's annual revenues. Additionally, the regime relieves registered taxpayers from significant compliance burdens with

respect to reporting for personal income tax, value added tax, and corporate income tax purposes.

4. **Law No 7/2025:** setting a cap on interest for late tax payments at 100 per cent of the original tax due on a taxpayer.

Legislative and ETA practical changes to domestic tax

Relevant changes in the past 12 months include:

1. Raising the annual threshold of intercompany transactions triggering the filing of transfer pricing documentation with ETA from EGP8m (approximately US\$160,000) to EGP15m (approximately US\$300,000) [*Minister of Finance Decree No 52/2024*]. As part of the TA Package, the Ministry of Finance promised to raise the annual threshold to EGP30m (approximately US\$600,000).
2. Abolishing ETA's Circulars Nos 5/2019 and 6/2019 (CLs) mis-defining 'exported services'. The two circulars deviated from international standards and created disputes relating to the notion of exported services and their subjectivity to VAT at 0 per cent in Egypt. The abolished CLs applied the standard VAT rate (14 per cent) on marketing services exported to foreign entities. After five years, ETA Instructions No 78/2024 abolished the CLs and restored the internationally accepted application of VAT on exported services.
3. Setting exclusive jurisdiction for the International Tax Department (ITD) in ETA to decide on technical aspects relating to applying and benefiting from double tax treaties (DTTs). ETA's Instructions No 30/2024 require the various departments of ETA (including inspection teams) to refer all DTT-related queries to the ITD. In addition, we notice that ITD increasingly conditions DTT reliefs on proving economic substance and beneficial ownership on the part of income recipients.

Introducing tax incentives for industrial and renewable energy businesses

Tax incentives for industrial businesses

The government opting to attract foreign direct investment issued the Cabinet Decree No 77/2023 ('Decree') on cash refunds from income taxes paid ('CIT Refund'). The Decree provides clarity on conditions, rules, and percentages of CIT Refunds as provided in the Investment Law amendment of July 2023. The CIT Refund's principal condition relates to the component of foreign financing in a new industrial investment.

The CIT Refund ranges between 35 per cent and 55 per cent of the income tax paid, depending on the percentage of foreign financing in the new industrial investment. The Decree details the:

- eligibility requirements for CIT Refund;
- rates and categories of CIT Refund;
- required procedures for application and qualification approvals; and
- CIT Refund process.

To qualify for the CIT Refund, new industrial investment projects shall:

- manufacture targeted industrial products (including, inter alia, steel products, chemical products and textile products) or their expansions;
- have new products exceeding 50 per cent of the entity's total turnover value;
- commence production by 25 July 2029;
- be financed in foreign currency from foreign sources to constitute at least 50 per cent of an entity's capital; and
- be in certain geographical areas (including, inter alia, the Suez Canal Economic Zone).

Based on the percentage of foreign funding for the project, the CIT Refund has the following rates:

1. CIT Refund of 35 per cent if foreign financing is between 50 per cent and 75 per cent of an entity's capital;
2. CIT Refund of 45 per cent if foreign financing is between 75 per cent and 90 per cent of an entity's capital; and
3. CIT Refund of 55 per cent if foreign financing exceeds 90 per cent of an entity's capital.

Investors may apply to a specialised committee at the General Authority for Investment and Free Zones (GAFI). During preliminary stages and even before establishing the investment project, an applicant can seek GAFI's review of the industrial project's financial and technical requirements to understand their eligibility for the CIT Refund. Investors may also obtain GAFI's preliminary approval upon fulfilling the CIT Refund's eligibility requirements. Approvals are issued from the GAFI Chairman. This preliminary approval is valid and binding for a period of three years.

Tax incentives for green hydrogen businesses

In the meantime, Parliament promulgated Law No 2/2024 governing incentives for the green hydrogen industry. The incentives are applicable to:

- green hydrogen (and its derivatives) production facilities;
- water desalination plants specifying that 95 per cent of its output is used in producing green hydrogen and its derivatives;
- renewable energy powerplants specifying that 95 per cent of its output is used in producing green hydrogen and its derivatives;
- projects engaged in transporting, storing, or distributing green hydrogen and its derivatives in Egypt; and
- projects engaged solely and directly in manufacturing the inputs required to produce green hydrogen and its facilities.

Aside from the CIT Refund (applied similarly), the law reiterates the VAT exemption on input goods to green hydrogen projects including raw material, machinery, tools, equipment, and instruments.

Free zones and Pillar Two

The Investment Law permits incorporating entities in free zones in Egypt. Being a free zone entity entails the entity is not subject to any corporate income tax in Egypt. We are witnessing continuous incorporations of entities benefiting from the free zones' regimes. This raises queries on the government's position from joining the Pillar Two initiative and the introduction of a domestic legislation to a qualified domestic minimum top-up tax (QDMTT). Any similar move can significantly impact Egypt's free-zone-based entities falling within the Pillar Two scope.

For the time being, there are no official announcements regarding Egypt joining Pillar Two. Although the government has committed to the IMF to: (1) limit the establishment of new free zones and (2) carry out a detailed assessment of the financial and economic performance of existing tax-exempt free zones to ascertain tax expenditure, we still see new free zones being established and new entities being incorporated in free zones.

Expected future changes

VAT amendments

After discussions with the IMF, the government promised to reduce the list of VAT exemptions. While the amendments target an increase in VAT revenues, they also seem targeted to correct indirect tax distortions. The application of schedule tax (table tax) entails limits on taxpayers' rights to deduct the input VAT. The schedule tax increased costs and created various difficulties for the within-scope taxpayers. The expected amendments may introduce changes to the scope of applying the special rules and rates of schedule tax, whether at rates higher than 14 per cent (eg, telecommunications, soft-drink beverages, and cars) or lower than 14 per cent (eg, construction (supply and installation) or professional services). Moving goods and services out of the schedule tax scope of application is a welcomed move for the relevant taxpayers who will reduce their operational costs.

For now, the changes must obtain government approval ahead of presenting the proposed amendment to the House of Representatives for promulgation. The timeline of enactment remains unclear, however, it does not seem to be ahead of the end of financial year 2024–25 (30 June 2025).

Tax policy document

We are expecting the release of the government's tax policy document (TPD). We understand that the TPD aims to inform the public about Egypt's tax targets, policies and implementation timelines for the period between 2025–30. In the TPD, we expect positions on:

1. introducing a new income tax law to replace the current one;
2. introducing the QDMTT legislation, if any;
3. reviewing VAT legislation to ensure lower supply chain costs on taxpayers; and
4. introducing legislation to:
 - a. identify beneficial owners; and
 - b. regulate the process of exchanging information for tax purposes.